



## **A NEW PARTNERSHIP IN GAMBLING INNOVATION**

Nevada's gambling revenues are declining. New technology is urgently needed to attract more play, but the innovation required to create that new technology is hindered by outmoded gambling regulations.

An innovation partnership between Nevada's Gaming Control Board and its licensed manufacturers will modernize gambling regulations, supercharge gambling innovation and potentially increase gambling revenues by \$11B annually.

### **DECLINING REVENUES**

Although Nevada's 2022 gambling revenues are the highest ever reported, 2006 revenues were actually 20% higher when inflation is taken into account. In 2019<sup>1</sup>, per-visitor gambling spend in Clark County was \$277, a 44% decline when compared to 1978's inflation-adjusted, \$497<sup>2</sup>. These numbers clearly demonstrate a decline and there are two principal causes:

#### **Stronger competition**

44 states and 500+ Native American tribes have casinos that compete with Nevada's. Those casinos increasingly provide new experiences that gamblers enjoy but Nevada's casinos can't offer. In comparison, Nevada's casinos are becoming less enjoyable to gamble in.

#### **Changing consumer desires**

Gambling is most appreciated by people over 40. That's typically when personal finances strengthen and youthful energy wanes. Slot machines appeal to generations that grew up with radio or television as their main entertainment. But those generations are aging out.

Younger generations—those born after 1975—grew up with the excitement of video game consoles and home computers. Even after reaching prime gambling age, they delight in social media, smart phones and highly interactive games. Slot machines don't meet their expectations. So they gamble less.

Stronger competition and changing consumer desires are a powerful one-two punch against Nevada's casinos. Innovation is the only effective counter. Innovation drives the modern world's economy. But true innovation isn't easily found on Nevada's casino floors.

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<sup>1</sup> 2019 is the most recent year unaffected by Covid, which lowered Nevada's visitorship in 2020, 2021 and 2022.

<sup>2</sup> Gambling spend is derived from annual gambling revenue divided by annual visitor volume. Source: Las Vegas Convention and Visitors Authority.

## **AN ELEVEN BILLION DOLLAR OPPORTUNITY**

Nevada's resorts continually reinvent themselves with new convention, stadium, sports, shopping and restaurant products. As a result, Nevada is expected to draw over 50 million visitors annually by 2030.

Without significant new innovation on casino floors, a large majority of those visitors will go home without gambling, causing further decline in gambling revenues.

Exciting new gambling innovations will entice more visitors to gamble and potentially restore per-visit gambling spend to 1978's level. That's an extra \$220 spent by each of 50 million visitors. If achieved, Nevada's annual gambling revenues would increase by \$11 billion.

## **NEVADA'S REGULATORY METHODS INHIBIT INNOVATION**

Nevada legalized gambling in 1931. Over time, Nevada developed a strict licensing process to keep crime and criminals out of casino ownership and management. Nevada's licensing process is considered the industry's gold standard.

Equally strict regulations were developed to assure the integrity of gambling technology. While competing jurisdictions followed Nevada's gold-standard method of licensing, most are far less restrictive in regulating gambling technology.

Casinos in those jurisdictions allow gambling products that Nevada's regulations prohibit. Those products are welcomed by gamblers and product integrity isn't compromised.

Nevada's casinos are losing billions of dollars annually because their gambling technology is over-regulated.

## **REGULATORY PROCESSES TAKE TOO LONG**

Governor Joe Lombardo, in his 2023 State of the State Address, recognized that Nevada's casinos are at a competitive disadvantage because of "...the time required to gain approval from the Gaming Control Board Lab for new product." He went on to say, "We need to work with the Control Board to ensure the logjam is cleared."

That logjam is caused by the lengthy process required for approving new gambling-related products. NGCB reviews each new product to certify it complies with technology regulations, a process that takes 3 to 18 months to complete. Once certified, the product is operated at a single casino as a 'field trial'.

All new products have flaws and many are revealed during the field trial. Before a product can be modified to fix a flaw, the modification itself must be certified by NGCB. Each modification certification requires 4 to 12 weeks to accomplish.

The sum of all certification times required to complete a single new product field trial is 6 to 24 months. That delay crushes innovation and its accompanying burden of certification overwhelms NGCB's limited staff, thereby creating the logjam Gov. Lombardo seeks to clear.

Nevada's gambling industry needs a regulatory process that provides a broader range of new products for its casinos, at a dramatically faster pace.

## THE INNOVATION PARTNERSHIP

An innovation partnership between NGCB and its licensed manufacturers would clear the logjam, speed innovation and re-establish Nevada's regulatory processes as the industry's best. Under this partnership, Nevada's licensing process remains unchanged and game integrity remains intact.

Only 3 modifications are required:

### 1. Regulate softly but carry a big stick

This variation of Theodore Roosevelt's century-old advice defines how NGCB can more efficiently wield its authority. Today's regulations preemptively constrain how gambling products operate. What isn't specifically permitted is prohibited.

Regulations should be softened to define only what is strictly prohibited. Everything else should be permitted—at least for field trial.

When a field trial ends, NGCB judges the product's market suitability before approving it for use by all casinos. This 'big stick' authority assures product integrity.

### 2. Streamlined policies

Over the years, a range of policies were created by NGCB's staff to guide how new products are assessed for suitability. Too often, a product is banned because its technology wasn't anticipated by the policy. Further, these policies are sometimes unwritten and inconsistently applied.

The NGCB should eliminate unwritten policies and streamline written ones. The gambling industry can assist by reviewing each policy and offering additional ideas for refinement.

### 3. Self-compliant field trials

Field trials are conducted in a single casino for a limited period of time. Product misbehavior during a field trial poses little threat to the integrity of Nevada's casino industry and can be quickly corrected by the manufacturer.

Requiring manufacturers to verify its own product's compliance with regulations during the field trial process eliminates the certification logjam at NGCB and dramatically improves opportunity for innovation. Manufacturers risk fines, loss of license or criminal penalties if they irresponsibly manage self-compliance.

## INCLUDING NEVADA'S UNIVERSITIES

Many of today's most influential technologies were invented by teenagers. Microsoft, Apple, and Google are a few examples. College students in engineering, psychology, literature and the arts are potentially valuable sources of innovative gambling entertainment.

Regulatory barriers prevent direct student involvement in gambling technology, especially in ways that allow experimentation in profoundly new ideas. As a result, most students apply their ingenuity toward unregulated industries and Nevada's gambling industry is deprived of this important source of innovation.

If Nevada's universities can be granted a limited non-commercial license under which its students could trial their ideas in a cooperating casino, we could capture and commercialize more innovations without undue risk to the integrity of our industry.

## **SUMMARY**

Increasing competition and changing consumer desires are causing Nevada's gambling revenues to decline. Innovative new gambling products can reverse this decline, just as Amazon, Google, Uber, Netflix and others have redefined the world's economy with their innovations.

An innovation partnership between NGCB and Nevada's gambling industry allows greater creativity and hastens innovation. Nevada's gambling revenues will grow and Nevada's technology regulations will once again lead the nation.

The cost of this innovation partnership is small. The potential rewards are significant. The time is now.

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